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**Statement in Support of  
S.B. 155 – An Act Allowing Employers to Pay Wages Using Payroll Cards**

**Labor and Public Employees Committee  
February 28, 2012**

Visa strongly supports S.B. 155, which would allow employers in Connecticut to pay their employees using payroll cards. This legislation would provide benefits for employees and employers alike, and would enfranchise unbanked and under-banked Connecticut employees into the financial mainstream.

S.B. 155 would require employers who wish to offer payroll cards to provide their employees with a written form asking them to choose payment by direct deposit or on a payroll card. Only those who elect payment using a payroll card or fail to return the election form would be paid using a payroll card. *S.B. 155 would not allow employers to mandate the use of payroll cards.* The choice of payment method would remain in the hands of the employee.

**Benefits for Unbanked Employees**

While Connecticut law requires that employees get paid in full on payday, those who don't have a bank account or a credit union membership are typically forced to give up some of their pay to simply access the funds on their paycheck. A 2009 study by the Federal Deposit Insurance Corporation (FDIC) found that 19.1% of all Connecticut households are either unbanked (having no checking or savings account) or under-banked (having a checking or savings account, but still reliant on alternative financial services such as check cashing).

Without a bank account or credit union membership – or without a checking or savings balance large enough to cash the check – employees are forced to rely on check cashing services to access their wages. Check cashers can charge a fee of up to 2%, which is quite significant for most workers. Indeed, the costs of being unbanked or under-banked go far beyond fees to cash paper checks. Fees for money orders and express pay services, transportation costs to pay bills in person, and postage/express shipping costs all add to the costs of being unbanked or under-banked.

With a payroll card, unbanked individuals in Connecticut will for the first time have the ability to access 100% of their pay, on payday, with absolutely no charge or fee at literally any bank and almost every credit union in the State. The payroll card can function *exactly* like a paper paycheck and be cashed out to the penny, or it can be used for a combination of accessing cash, paying bills online, making point of sale purchases, and making online or telephone purchases.

**Employee Protections**

Unlike other prepaid products, payroll cards are subject to significant regulation. Only payroll cards have been singled out by the Federal Reserve Board as being subject to Regulation E, which includes many important consumer protections. Regulation E requires dispute resolution procedures to protect cardholders, and requires that all terms, conditions and fees be clearly disclosed, permitting

payroll cardholders to easily understand how to use the card to their best advantage. Although overdrafts on payroll cards are uncommon, recent revisions to Regulation E prohibit fees for overdrafts without prior consent.

Prior to the issuance of a payroll card, Regulation E requires that employers provide their employees with written notice of the terms and conditions of the card, any fees that may be assessed by the card issuer, and notice that other fees may be assessed by third parties (e.g., out of network ATM providers).

And while Regulation E establishes that if a payroll card is used fraudulently, the cardholder is only liable for up to \$50 in fraud losses, network-branded payroll cards offer zero liability. If a network-branded payroll card is lost, stolen or used without authorization, the employee is protected up to 100% of the loss.

### **Benefits for Employers**

Electronic wage payment quite simply saves employers money. Direct deposit and payroll cards eliminate the cost of issuing, processing and distributing paper paychecks, as well as the costs associated with lost and stolen paychecks. Employers can save anywhere from \$2.87 to \$3.15 per payment using electronic payment methods instead of paper paychecks, according to NACHA.

Direct deposit and payroll cards also provide employers with a reliable means of complying with strict wage payment statutes even when unforeseen obstacles arise. For example, inclement weather, unexpected employment terminations, natural disasters and similar contingencies often make the timely payment of wages using paper paychecks difficult, if not impossible.

### **The Recognized Value of Electronic Payments**

As one of the leaders in developing digital currency and the great benefits that accrue to everyone involved as a result, Visa applauds the Committee for considering this important legislation. The vast majority of states, including Connecticut, distribute at least some government benefits electronically. A growing number of states, such as Oregon and Nebraska, now pay wages to their own employees using direct deposit and payroll cards. Even the federal government is going paperless, with plans to issue federal benefits, including Social Security, Supplemental Security Income and Veteran's benefits, through either direct deposit or prepaid cards (similar to payroll cards).

The State of Connecticut already recognizes the value of electronic payments and uses prepaid debit cards to deliver a variety of benefits including unemployment compensation, child support, food stamps and Temporary Assistance to Needy Families (TANF). Yet, Connecticut remains one of only a handful of states that do not allow employers to use this beneficial payment method to compensate their employees.

A statutory amendment, as proposed by S.B. 155, is necessary to align the wage payment statute with modern wage payment practices. S.B. 155 represents a compromise struck by key stakeholders last session, resulting from a great deal of work to craft legislation that would work in Connecticut. As such, Visa respectfully urges the Committee to approve this bill.